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TELEPHONE
ASSOCIATION

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April 15, 1997

APR 15 1997

William F. Caton
Secretary
Federal Communications Commission
1919 M Street, N.W. - Room 222
Washington, D.C. 20554

Federal Communications Commission
Office of Secretary

**RE: Ex Parte Notice
CC Docket No. 96-45**

Dear Mr. Caton:

On April 15, 1997, a group representing the United States Telephone Association (USTA) and the Rural Telephone Coalition (RTC) held two meetings with FCC staff. The group comprised Michael Brunner (National Telephone Cooperative Association), John Rose (Organization for the Promotion and Advancement of Small Telecommunications Companies), and Roy Neel (USTA).

At the first meeting, the group met with Commissioner Rachelle Chong and Legal Advisor Daniel Gonzales. At the second meeting, the group met with Commissioner Susan Ness and Legal Advisor James Casserly.

At both meetings, the group discussed the LEC Association Universal Service Transition Plan for Rural Telephone Companies as outlined in the attached document, which was distributed at both meetings.

An original and one copy of this ex parte notice are being filed in the Office of the Secretary. Please include this notice in the public record of these proceedings.

Respectfully submitted,

David Cohen
Vice President - Small Company Affairs

attachment

cc: R. Neel M. Brunner
R. Chong J. Rose
S. Ness D. Gonzales
J. Casserly

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UNIVERSAL SERVICE TRANSITION PLAN FOR RURAL TELEPHONE COMPANIES

Broad outline of the plan

- **Adopts some elements of the Joint Board Recommendation with modifications:**
 - **Does not freeze costs as of 1995 or 1996.** Freezing costs that can be recovered from a universal service fund discourages investment in the rural infrastructure.
 - **Does freeze the allocation factors by which costs are included in the fund.** This stabilizes the size of the fund, assuring predictability from both the payer and receiver perspectives.
 - **The plan includes all lines, not just first residential lines and single line business users.** The Joint Board Recommendation would result in an immediate cut in universal service support (calculated at an average of 17% by the JSI ex parte) but even greater for many individual companies.
- **Rural telephone companies as defined by the Act will be eligible for the plan.**

The Transition Plan is Superior to the Status Quo

- **It removes DEM weighting from the traffic sensitive access rates of rural telephone companies and collects them in a competitively neutral manner.** This fulfills an Act goal of making implicit supports explicit and reduces the traffic sensitive rate disparity between small companies and others. It reduces traffic sensitive access rates charged by rural telephone companies to IXCs by a third.
- **It moves all existing supports received by rural telephone companies (LTS, DEM weighting, USF) into one fund collected in a competitively neutral manner.**

Public Policy Reasons for Adoption of the Plan

- **It complies with the Act's requirements for a federal fund that is predictable, specific and sufficient to achieve reasonable rural/urban rate and service parity.**
- **It encourages continued investment in the rural telecommunications infrastructure**
- **It supports all lines, including multi-line business lines, that without support could increase in price to levels that would discourage development of businesses in rural areas.** It also includes second residential lines, used in many instances for Internet access which is particularly valuable in isolated rural areas.

- It allows rural telephone companies to fulfill commitments that they have made to:
 - The FCC, in their applications for study area waivers (requests for these waivers indicates a commitment of at least \$350 million in infrastructure upgrades)
 - State public service commissions. Rural telephone companies have committed to upgrades to receive state approval of these study area waivers and to adhere to RUS required State Telecommunications Modernization Plans
 - RUS, both to extend and improve the rural infrastructure and to repay the outstanding \$7 billion in loans made to rural telephone companies by RUS.
- The transition plan is roughly equivalent in total fund size to the Joint Board recommendation when all lines are included in both. The advantage of the LEC transition plan is distributional -- unlike the Joint Board recommendation it does not unjustly enrich those companies which made investments just before the Joint Board's freeze and whose access line growth would exceed their growth in costs while penalizing those companies whose investments were or will be made after the freeze date and therefore whose cost growth may exceed their access line growth. Rural telephone companies are aware that the Joint Board recommendation creates windfalls for some companies but these companies are willing to support the LEC transition plan in the interest of simple fairness.

The LEC Transition Plan has received considerable support from the states

- The state members of the federal/state joint board on universal service, authors of the Joint Board recommendation, have endorsed the LEC transition plan
- Governors of several states have endorsed the LEC plan, particularly recognizing its positive aspects on rural economic development